

Message Text

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ACTION EUR-25

INFO OCT-01 AF-10 ARA-16 EA-11 NEA-10 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02

FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

PA-04 PRS-01 USIA-15 DRC-01 /221 W

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R 021844Z MAY 74

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 655

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY LUXEMBOURG

AMEMBASSY THE HAGUE

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

AMEMBASSY PARIS

AMEMBASSY ABU DHABI

AMEMBASSY KUWAIT

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AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY QUITO

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY JAKARTA

AMEMBASSY BEIRUT

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C O N F I D E N T I A L SECTION 1 OF 2 BRUSSELS 2660

TASTO 2

BEIRUT PASS BAGHDAD

E. O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: MEETING OF ECG GROUP ON INTERNATIONAL OIL
MARKET, MAY 1

REF: STATE 85355

FOLLOWING IS TEXT REPORT OF AD HOC GROUP ON THE INTERNATIONAL
OIL MARKET (ECG/32) WHICH WAS SUBMITTED TO ECG FOR DIS-
CUSSION MAY 2 - 3. ECG DISCUSSION WILL BE REPORTED BY
SEPTTEL.

BEGIN TEXT

1. ANY CONCLUSIONS ON THE FUTURE WORLD ENERGY MARKET
MUST BE VERY PRELIMINARY AND TENTATIVE BECAUSE WE HAVE
HAD NO EXPERIENCE WITH CHANGES EVEN APPROACHING THE
MAGNITUDE OF THOSE IN THE RECENT PAST. THUS WE HAVE
LITTLE HISTORICAL BASIS FOR ESTIMATING EITHER THE
CONSUMPTION OR PRODUCTION RESPONSE TO SUCH MAJOR CHANGES
IN PRICES.

2. MOREOVER, ACTIONS WHICH OIL EXPORTING COUNTRIES
MIGHT TAKE FOR NON-MARKET REASONS OR TO DERIVE CARTEL-
TYPE BENEFITS CANNOT BE CONSIDERED ADEQUATELY IN THE
CONTEXT OF THE ESSENTIALLY ECONOMIC STUDIES REVIEWED BY
THIS GROUP. THE GROUP'S CONCLUSIONS THEREFORE INDICATE
ONLY THE WAYS IN WHICH SUPPLY AND DEMAND FACTORS MIGHT
INFLUENCE THE FUTURE INTERNATIONAL OIL MARKET BUT THIS
DOES NOT BY ITSELF PERMIT A COMPREHENSIVE PROJECTION OF
FUTURE TRENDS AND PRICES.

3. AT PRESENT PRICES IN REAL TERMS, UNDERLYING SUPPLY
AND DEMAND FORCES WOULD PROBABLY GENERATE A SMALL SURPLUS
OF OIL IN THE WORLD MARKET IN THE SHORT RUN AND A GROWING
POTENTIAL SURPLUS IN THE LONGER RUN.
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SHORT RUN

4. THE GROUP CONCLUDED THAT, ASSUMING NO SIGNIFICANT
INVENTORY BUILDING, PRELIMINARY ESTIMATES OF OECD AREA
GNP GROWTH, AND CONTINUATION OF CONSERVATION MEASURES,
CURRENT PRODUCTION PLANS COULD PROVIDE 1 - 2
MILLION BARRELS A DAY MORE THAN EXPECTED DEMAND IN 1974.

5. THE CRUDE OIL MARKET WILL NOT ONLY BE INFLUENCED BY PRODUCER GOVERNMENT PRICING AND SUPPLY POLICIES, BUT MAY ALSO BE AFFECTED BY CONSUMER GOVERNMENT POLICIES ON STOCKS, CONSERVATION, PRICE MANAGEMENT, AND COMPANY GUIDANCE. THERE WAS GENERAL AGREEMENT THAT CONSERVATION POLICIES SHOULD BE PURSUED SO FAR AS THEY ARE CONSISTENT WITH AN ACTIVE WORLD ECONOMY. WHILE THERE WAS CONSENSUS NOT TO FOLLOW A DELIBERATE POLICY TO SLOW DOWN STOCKPILING IN AN EFFORT TO INFLUENCE PRICES, NO COUNTRY INDICATED NEW PLANS TO BUILD STOCKS RAPIDLY.

LONG RUN

6. THERE WAS GENERAL AGREEMENT IN THE GROUP THAT, IF PRESENT PRICES IN REAL TERMS CONTINUE THROUGH 1985, THE DEMAND FOR ENERGY IN 1980-1985 SEEMS LIKELY TO FALL WELL SHORT OF PRE-OCTOBER 1973 ESTIMATES, THAT ENERGY PRODUCTION FROM DOMESTIC SOURCES SEEMS LIKELY TO BE SUBSTANTIALLY INCREASED IN SOME MEMBER COUNTRIES FROM PRE-OCTOBER, 1973 ESTIMATES, AND THAT THERE SEEMS LIKELY TO BE A GROWING POTENTIAL SURPLUS OF CRUDE OIL IN THE WORLD MARKET.

7. BY THE 1980-1985 PERIOD, IF CRUDE PRICES WERE TO REMAIN AT PRESENT LEVELS IN REAL TERMS AND WITHOUT CHANGES IN POLICIES, PRELIMINARY OECD PROJECTIONS INDICATE THAT OECD IMPORTS OF OIL FROM OPEC COUNTRIES WOULD BE LOWER THAN IN 1973.

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C O N F I D E N T I A L SECTION 2 OF 2 BRUSSELS 2660

8. STUDIES PRESENTED BY THE U. S. SUGGEST THAT:

A. IF CONSUMING GOVERNMENTS WERE TO REINFORCE MARKET FACTORS WITH SIGNIFICANT POLICY MEASURES AFFECTING CONSUMPTION AND INDIGENOUS SUPPLIES, THE OPEC COUNTRIES COULD BY 1985 BE FACED WITH A SHARP REDUCTION OF AS MUCH AS 50 PERCENT FROM PRESENT EXPORT LEVELS, A SUBSTANTIAL REDUCTION IN CRUDE OIL PRICES BELOW THE CURRENT \$9 PRICE IN REAL TERMS, OR SOME COMBINATION OF THE TWO.

B. IF SUPPLIES OF OIL FROM OPEC COUNTRIES GROW IN ACCORDANCE WITH CAPACITY PROJECTIONS AND INVESTMENT PLANS, VERY SUBSTANTIAL DOWNWARD PRICE MOVEMENTS WOULD TAKE PLACE IN THE WORLD OIL MARKET. BOTH THE TIMING AND THE DEGREE OF DOWNWARD PRICE MOVEMENTS COULD BE SIGNIFICANTLY INFLUENCED BY CONSUMER GOVERNMENT ACTIONS WHICH PROMOTE ENERGY CONSERVATION AND PROVIDE INCENTIVES FOR ALTERNATIVE SOURCES OF PRODUCTION.

C. THESE SAME POLICY MEASURES WOULD ALSO SERVE TO REDUCE THE VULNERABILITY OF CONSUMING COUNTRIES TO FUTURE

SUPPLY INTERRUPTIONS AND REDUCE THEIR LIKELIHOOD.

D. IN VIEW OF THE PROJECTED OUTCOME, IT IS CLEAR THAT PRODUCERS AS WELL AS CONSUMERS WOULD BENEFIT IN THE LONG RUN FROM EARLY PRICE REDUCTIONS SO THAT THE LONGER-RUN MARKET FOR OPEC OIL WOULD REMAIN STRONGER AND MORE CERTAIN. BOTH PRODUCERS AND CONSUMERS WOULD ALSO BENEFIT FROM STABLE PRICES WITH REGULAR SUPPLIES AND EARNINGS AND THE ENTIRE WORLD WOULD BENEFIT FROM USE OF RESOURCES IN THE MOST EFFICIENT WAYS BY AVOIDING PRODUCTION OF ENERGY FROM VERY EXPENSIVE SOURCES.

9. THE GROUP HAD A PRELIMINARY EXCHANGE OF VIEWS OF THE U. S. STUDIES. THE TIME AVAILABLE DID NOT PERMIT FINAL CONCLUSIONS TO BE REACHED ON THEIR FINDINGS, AND IT WAS AGREED THAT THERE SHOULD BE FURTHER EXAMINATION OF THESE STUDIES AND THE ISSUES THEY RAISE.
DONALDSON

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